

**Oral Testimony of
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Conservation, Credit, Rural Development, & Research Subcommittee of
Agriculture Committee
United States House of Representatives**

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Thank you, Mr. Chairman, for this opportunity to discuss the important role that natural gas plays in agriculture.

I am R. Skip Horvath, President of the Natural Gas Supply Association (NGSA). The Natural Gas Supply Association represents integrated and independent companies that produce and market domestic natural gas. Established in 1965, NGSA encourages the use of natural gas and a regulatory climate that fosters competitive markets.

I would like to address four topics very briefly in my remarks today:

- First, the increasing demand for natural gas.
- Second, the ways that supply meets potential demand.
- Third, what the natural gas producing industry is doing to bring more supplies to market.

Lastly, I will discuss government policies that raise the cost of natural gas and, in the process, damage our economy.

There has been a fundamental shift in the natural gas market.

Natural gas is a clean, safe, efficient and reliable fuel, which is why the market is demanding it for residential, commercial, industrial and electric generation purposes. Farmers have used natural gas for crop drying, and possible future agricultural uses include air conditioning. This increased demand for natural gas, especially as a fuel to generate electricity, is resulting in a paradigm shift in the market. Natural gas traditionally has a seasonal demand pattern based on winter residential and commercial heating demand; now it is also experiencing a strong summer market, as natural gas increasingly becomes the fuel of choice for electric generation.

- The Energy Information Administration (EIA) estimates that natural gas fired generation will increase 4.0 percent from 2000 to 2001, and an additional 6 percent in 2002.
- The economy, even now that it has slowed down, has increased energy demand from all groups of customers of the natural gas industry;

A competitive, free marketplace works to everyone's advantage.

Free markets have not always been allowed to work for natural gas, and consumers have suffered the consequences. For many years, the federal government regulated the price paid to natural gas producers (the "wellhead" price). This intervention resulted in artificial shortages, and government officials wisely decided to let competition evolve instead. History has shown that over the long term, customers benefit from a competitive natural gas market through lower prices and reliable service. In 1989 Congress enacted the

Natural Gas Wellhead Decontrol Act, which phased out natural gas price controls. During the past 15 years, demand for natural gas has grown while the prices paid for natural gas service declined in real terms from \$4.41/MCF in 1984, when the government regulated natural gas prices, to approximately \$3.60 MCF in 2000 under competition (2000 dollars; EIA data and publicly available data). This competition provided U.S. consumers a savings of \$610 billion over that period.

Similarly, we recognize that we need all of our energy sources – oil, coal, nuclear, hydro, renewables, and natural gas – to fuel America. Allowing these fuels to compete, with the market deciding which one is preferred, removes the possibility of creating artificial markets favoring one fuel source over another.

Today, natural gas is a commodity that is bought and sold in a competitive market where prices reflect supply and demand relationships. The natural gas supply industry is highly competitive with many participants.

- There are thousands of natural gas producers.
- The five top natural gas producers represented only 20 percent of the U.S. market demand in 2000.

Almost all (85%) of the natural gas consumed in the U.S. is produced in the U.S. Most of the remaining natural gas supplies are transported from neighboring Canada via reliable pipelines.

Natural gas is a commodity. Like other commodities, natural gas is traded in an open market at market hubs. These hubs act as marketplaces where hundreds and even thousands of buyers and sellers of natural gas electronically come together. Natural gas price movements occur as the supply and demand cycles interact. Factors affecting the current natural gas market are:

- Weather: Near-normal conditions are likely for the summer of 2001.
- Other fuels: A falloff from recent highs in hydroelectric output is expected to bring forth more natural gas use for electricity generation this year;
- Storage injections: Because of heavy use of natural gas storage this last winter, average injections are expected to be higher than last year in order to prepare for next winter.

Supply is tight. Because of lag times inherent in matching supply with increased demand, supplies have become tight. According to EIA and publicly available data, the price of natural gas and oil collapsed in 1998 and 1999, resulting in the industry allocating less capital to exploration and production activities. Now that continued strong demand has resulted in the increase in natural gas and oil prices, the industry is able to invest more in production. In fact, the top 10 producers, for example, are investing some \$41 million into exploration and production over last year, representing a 25% increase. As a result, we are seeing a supply response: EIA estimates that natural gas production has increased 3.7 percent from 1999 to

2000 and forecasts a further increase of 2.7% in 2001. Producers continue to do everything they can to bring more natural gas to market.

Tight supply is not a sign of inadequate resources. In 1990 producers had to replace about 10 percent of their natural gas volumes with new wells each year just to bring consumers the same amount of gas they had the year before. Today, this average “decline rate” has jumped to 23 percent. That means that producers must find 23 percent more gas each year just to satisfy even a stagnant market. This increasing decline rate occurs because our technological advances are allowing us to find fields that in the past were just too small to be economic, but because of their size they experience sharper decline rates. As a result we must find more and more each year just to produce the same volumes, but doing so does not mean that we have an inadequate supply of natural gas.

In fact, we have an ample resource base of natural gas to supply the growing market. The National Petroleum Council (NPC) estimates that 2,400 trillion cubic feet (Tcf) of natural gas resources exists in North America. The resource estimate continues to grow as new technologies allow producers to extend the frontiers for development of existing natural gas resources.

But these impressive volumes can only reach consumers if a number of events occur and challenges are met. Much of the nation's resource base resides on federal government lands or beneath federal government waters that have drilling restrictions. The National Petroleum Council reports that two of the most promising regions, the Rocky Mountains and the Gulf of Mexico, are largely unavailable due to drilling restrictions. The following natural gas resources are off limits or subject to significant restrictions:

- 100 percent offshore on both the East and West coasts
- 56 percent of the eastern Gulf of Mexico
- 40 percent of the Rocky Mountain region

Access to these resources is critical to meeting the market's expectations, and access can be accomplished while minimizing disturbance to the environment. Producers employ new technology that has vastly improved the exploration and production process since these land restrictions were put in place. In the last 30 years, natural gas producers have made great strides in reducing our impact on the environment:

- Using horizontal and directional drilling, we can access resources up to 6 miles away from one drill pad without disturbing the land on its surface;
- We use "postage-stamp" drilling pads that occupy only 25% of the space that was required 30 years ago;
- Slim-hole drilling reduces drilling wastes by 75%; and

- 3-D seismic technology has improved the success rate of drilling wells by 200%, which means that producers are drilling fewer dry wells.

All these technological advances add up to the fact that the natural gas producers are good environmental stewards and should be allowed access to the natural resources that exist on federal lands.

Producers are responding to the market. Today, with tight supply and rising demand, producers are individually responding by working to bring more natural gas to the market.

- The number of active natural gas drilling rigs is up nearly 150 percent from April 1999.
- Roughly 4 out of 5 of the active U.S. drilling rigs are engaged in drilling for natural gas.
- The exploration and production industry gained 20,000 workers in 2000 to obtain the gas. It has added another 13,000 jobs so far this year.
- Production is responding and beginning to increase.

However, there will continue to be a lag between the time producers begin to drill and when that gas gets to market. It can take up to several years to bring supply to consumers, depending upon the geographic location and point in the exploration and development cycle at which producers begin the process. There are other factors contributing to the lag time, including:

- Wells: If a drilling prospect in a currently producing field already exists, it takes an average of three months to bring that gas to market. If, however, wildcat exploration for new fields is required to locate new sources of natural gas, and depending on the complexities of development, it can take several years for that gas to reach the market.
- Workers: To the extent that individual companies had to cut back drilling when prices were depressed, they also had to let go of rig workers; now, rehiring skilled and unskilled workers is part of the gearing-up process, but retraining takes time.
- Safety and Environmental Compliance: Two cornerstones of drilling for natural gas are ensuring that we produce natural gas safely and in compliance with all environmental regulations. Producers are complying with existing regulations and are committed to do so.

We appreciate this opportunity, Mr. Chairman, to inform Americans about these facts. The U.S. Congress made the right decision in 1989 to release competitive forces on the natural gas producing industry. Government intervention, such as price controls, will only harm consumers by creating the very gas shortage we all seek to avoid. One thing the government can do today is allow producers access to certain government lands so we can increase the choices natural gas consumers have for their gas. In short, the best approach when dealing with natural gas supplies is to let the competitive market work to benefit all our citizens.

Thank you.